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Inflation ticked up, as tracked by the Fed's preferred measure. Above, a store in New York. RICHARD B. LEVINE/ ZUMA PRESS

Soured Outlook, Inflation Rattle Investors

Consumers feel worse about the future; broad selloff drags down markets

BY JUSTIN LAHART AND MATT GROSSMAN

Worsening consumer sentiment and hotter-than-expected inflation data sent stock indexes reeling on Friday to another weekly decline.

The University of Michigan on Friday said its index of consumer sentiment, which measures people's view of the economy, fell to 57 this month from 64.7 in February, hitting its lowest level since 2022. Respondents' feelings about the current economy were gloomy but relatively stable. Their views about the economy's future got much worse.

Investors are also being hit by President Trump's tariff announcements and inflation picking up, as tracked by the Fed's preferred measure. That figure, excluding volatile food and energy prices, came in at 0.4% for February, or 2.8% compared with a year earlier. Both rates were slightly ahead of forecasts.

The Dow Jones Industrial Average fell more than 700 points, or 1.7%, on Friday, its largest percentage drop since March 10. The tech-heavy Nasdaq Composite fell 2.7%, with

the Magnificent Seven group of stocks erasing about $505 billion in market value. The S& P 500 tumbled nearly 2%.

For the week, the S& P 500 fell about 1.5%, its fifth weekly decline in the past six. The Nasdaq declined 2.6%, and the Dow lost about 1%.

The Michigan sentiment report follows other surveys showing that the mood among both American consumers and businesses has markedly deteriorated during the first quarter. The Conference Board, a business-research group, on Tuesday reported that its overall index of consumer confidence fell sharply this month. Its measure of future expectations dropped to the lowest level in 12 years.

Worries and uncertainties about the Trump administration's on-again-off-again tariff plans, government layoffs, immigration crackdowns and spending cuts have thrown off families and businesses.

Regional business surveys in the past two weeks from the Federal Reserve banks of New York, Philadelphia and Richmond show that manufacturing and services businesses alike grew more pessimistic.

"Tariff policy is impossible for us to predict and doesn't have a clear goal," said one respondent to a quarterly energy- industry survey released by the Dallas Fed on Wednesday. "We want more stability."

When it comes to the economy, feelings matter. A family feeling skittish about the future might put off a vacation; a company might delay an ex-pansion. If enough people de cide to hold back, they can ripple through the economy. Those feelings can also work as an early warning system, reflecting facts people are seeing on the ground that aren't yet showing in other data.

Consumer and business surveys are what economists consider "soft" data, driven to an extent not by what people are experiencing but what they say. Bad feelings don't always translate into bad news for the economy. The Michigan sentiment index, for example, fell sharply from the middle of 2021 to the middle of 2022 as inflation soared. Yet while Americans felt bad about the economy, they kept spending money.

In contrast, when sentiment fell sharply over the year leading up to the 2008-09 financial crisis, pinched consumers were reining in spending.

Today, hard data such as sales, industrial production and jobs reports indicate that although the economy has softened, it probably isn't shrinking. That data can take time to catch up with the reality on the ground, however, and some measures, such as employment, often don't turn until the economy is already in trouble. So economists are paying close attention to softer data for clues to where the economy is headed.

Some consumers have said they are pulling back, and sales are starting to soften for airlines and convenience stores. Still, that may not be enough to dent the overall economy.

To Joshua King, headlines about tariffs and Trump layoffs feel far removed from his work at an aircraft-charter company in Tulsa, Okla. A bachelor party in New Orleans this month brought together 11 of his college friends, all with steady jobs.

"No one was pinching pennies," King said.

Others say that concerns about the economy are leading them to cut back. "I'm definitely not planning any vacations this year," said Robin Suggs, a community-nonprofit worker in Robbinsville, N.C. Suggs said federal-spending cuts are taking a toll on the rural area where he works.

Consumers appear more cautious. Friday, the Commerce Department reported that its measure of consumer spending rose less than expected in February from January, with January figures revised lower. After the report, economists further lowered "tracking" estimates, which measure available data, for gross domestic product. Morgan Stanley, for example, now estimates GDP will grow at a 0.4% annual rate in the soonto- end first quarter. GDP grew 2.4% in the fourth quarter.

For many Americans, having a job and money in their pocket matters more for spending than how they feel. When the Michigan sentiment index fell in 2022, "we saw people being really unhappy about the economy, but spending remained strong," Joanne Hsu, the survey's director, noted. People then were confident they would keep their jobs, Hsu said, and they had built up savings during the pandemic.

What is different now is that hiring has slowed, while pandemic savings have been spent down. "Those supports just are weakening or disappearing altogether," Hsu said.

History shows that sentiment counts for something. Americans' sentiment fell sharply, according to the Michigan index, after Saddam Hussein invaded Kuwait in August 1990. A recession started around the same time.

The incident helped prompt a 1994 paper from Federal Reserve economists Christopher Carroll, Jeffrey Fuhrer and David Wilcox, finding that the expectations component of the Michigan survey, in particular, had some predictive value when it came to consumer spending.

Later work by Carroll found that within the Michigan survey, responses to a question on what unemployment will do over the next year is strongly correlated with spending on big-ticket items, such as cars and appliances, in particular.

Friday's report showed that the share of survey respondents who expect higher unemployment over next year rose to 66% in March, from 51% in February, bringing it to its highest level since the 2008-09 financial crisis.

The degree to which perceptions on the labor market match reality on the ground is unclear, however. The Trump administration has laid off thousands of federal workers, though for many, jobs have been reinstated. Measures of private-sector layoffs and layoff plans have also picked up. But unemployment remains low at 4.1%, and initial jobless claims have remained low.

